

Message Text

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60

ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 INT-05 FEA-01

FPC-01 OES-03 /098 W

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R 021202Z OCT 75

FM AMEMBASSY MANAMA BAHRAIN

TO SECSTATE WASHINGTON DC 2477

INFO AMEMBASSY ABU DHABI UAE

AMEMBASSY DOHA QATAR

AMEMBASSY JIDDA SAUDI ARABIA

AMEMBASSY KUWAIT KUWAIT

AMEMBASSY MUSCAT OMAN

AMEMBASSY TEHRAN IRAN

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E.O. 11652: N/A

TAGS: EFIN, BA, KU, TC, QA

SUBJECT: THE GULF DINAR QUESTION

REFERENCE: (A) DOHA 337

(B) MANAMA 0707

1. ACCORDING TO THE DIRECTOR GENERAL OF THE BAHRAIN MONETARY AGENCY (BMA), THE HEADS OF THE CENTRAL BANKS (OR THEIR LOCAL EQUIVALENTS: CURRENCY BOARDS AND MONETARY AGENCIES) OF KUWAIT, QATAR, THE UNITED ARAB EMIRATES, BAHRAIN AND POSSIBLY OMAN WILL MEET IN

KUWAIT IN THE FIRST WEEK OF NOVEMBER TO SUBMIT REPORTS ON THE PRACTICAL AND THEORETICAL PROBLEMS INVOLVED IN ESTABLISHING A UNIFIED GULF CURRENCY UNIT. THESE REPORTS WERE COMMISSIONED

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IN A JULY MEETING IN ABU DHABI OF THE SAME GROUP.

2. IT IS THE EXPECTATION OF THE BMA THAT AFTER SUPERFICIAL DISCUSSION OF THE REPORTS, ACCOMPANIED BY RITUAL PUBLIC STATEMENTS ABOUT GULF SOLIDARITY AND THE NEED FOR A COMMON CURRENCY, NEW COMMITTEES WILL BE SET UP TO STUDY WAYS OF SOLVING OR CIRCUMVENTING THE "PROBLEMS" POINTED TO IN THE STUDIES. THESE COMMITTEES SHOULD TAKE AT LEAST SIX MONTHS TO STUDY THE ISSUES BEFORE CONVENING THE NEXT MEETING.

3. SOMETIME IN OCTOBER, THE GULF MINISTERS OF FINANCE WILL BE MEETING, PROBABLY IN QATAR, TO CONSULT ABOUT COMMON PROBLEMS. AT SUCH MEETING THERE WILL BE PUBLIC STATEMENTS ABOUT THE NECESSITY OF EVOLVING A COMMON CURRENCY, BUT ACCORDING TO THE BMA THIS SHOULD NOT BE TAKEN TOO SERIOUSLY FOR REASONS SIMILAR TO THOSE EXPRESSED IN MARCH BY THE QATARI DIRECTOR OF FINANCE (REF A).

4. AS REPORTED REF B, THE INITIATIVE FOR THE JOINT GULF CURRENCY IS ESSENTIALLY KUWAITI, WE UNDERSTAND. THE EMERGING BAHRAINI POSITION ON THE ISSUE IS THAT, EVEN IGNORING POLITICAL CONSIDERATIONS, THERE ARE ENORMOUS COMPLICATIONS INVOLVED IN THE PROPOSED CURRENCY -- COMPLICATIONS WHICH HAVE NOT YET BEEN SERIOUSLY ADDRESSED OR UNDERSTOOD BY MANY. FROM BAHRAIN'S POINT OF VIEW, THESE HAVE LARGELY TO DO WITH THE RADICALLY DIFFERENT ECONOMIC STRUCTURES OF THE STATES, PARTICULARLY THE DIFFERENCES BETWEEN THE OIL RICH AND THE OIL POOR (BAHRAIN). BAHRAIN, DEPENDENT ON THE INTERNATIONAL COMPETITIVENESS OF ITS ALUMINUM PRODUCTS AND SERVICE FACILITIES, NEEDS A FUNCTIONALLY REALISTIC VALUATION OF CURRENCY - SOMETHING THE OIL RICH CAN AFFORD TO IGNORE.

5. FURTHER, THE BAHRAINIS THINK THAT A COMMON CURRENCY WHICH DID NOT INCLUDE SAUDI ARABIA WOULD NOT BE VERY USEFUL IN MEETING BAHRAIN'S REAL ECONOMIC NEEDS. ITS ROLE AS ENTREPOT FOR SAUDI ARABIA CONTINUES TO EXPAND WHILE ITS TRADITIONAL ROLE AS ENTREPOT AND FINANCIAL CENTER FOR THE LOWER GULF HAS DECLINED MARKEDLY IN RECENT YEARS.

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